

**Letter of Findings: 01-20160276  
Indiana Individual Income Tax  
For the Year 2011**

**NOTICE:** IC § 6-8.1-3-3.5 and IC § 4-22-7-7 require the publication of this document in the Indiana Register. This document provides the general public with information about the Department's official position concerning a specific set of facts and issues. This document is effective on its date of publication and remains in effect until the date it is superseded or deleted by the publication of another document in the Indiana Register. The "Holding" section of this document is provided for the convenience of the reader and is not part of the analysis contained in this Letter of Findings.

### **HOLDING**

Individuals failed to establish that they abandoned their Indiana domicile status during the years in which they resided in Kuwait; Individuals retained ownership of an Indiana home during the year at issue and claimed the Homestead Credit when they paid property tax on that home.

### **ISSUE**

#### **I. Indiana Individual Income Tax - Residency.**

**Authority:** IC § 6-1.1-12-37(a)(2); IC § 6-1.1-12-37(e); IC § 6-1.1-12-37(f); IC § 6-3-2-1(a); IC § 6-3-1-12; IC § 6-8.1-5-1(c); Dept. of State Revenue v. Caterpillar, Inc., 15 N.E.3d 579 (Ind. 2014); Indiana Dep't of State Revenue v. Rent-A-Center East, Inc., 963 N.E.2d 463 (Ind. 2012); State Election Board v. Bayh, 521 N.E.2d 1313 (Ind. 1988); In the Matter of Evrard, 333 N.E.2d 765 (Ind. 1975); Board of Medical Registration and Examination v. Turner, 168 N.E.2d 193 (Ind. 1960); Croop v. Walton, 157 N.E. 275 (Ind. 1927); Culbertson v. Bd. Of Comm'rs of Floyd County, 52 Ind. 361 (1876); Wendt LLP v. Indiana Dep't of State Revenue, 977 N.E.2d 480 (Ind. Tax Ct. 2012); Scopelite v. Indiana Dep't of Local Gov't Fin., 939 N.E.2d 1138 (Ind. Tax Ct. 2010); Lafayette Square Amoco, Inc. v. Indiana Dep't of State Revenue, 867 N.E.2d 289 (Ind. Tax Ct. 2007); [45 IAC 3.1-1-22](#); [45 IAC 3.1-1-23](#)(3).

Taxpayers argue that they were not Indiana residents during 2011 and were not required to file a 2011 Indiana return as full-year residents of this state.

### **STATEMENT OF FACTS**

In a letter dated February 2015, the Department of Revenue ("Department") notified Taxpayers that they "have unreported income for the tax year [2011] . . . and must file an Indiana return if you were an Indiana resident or had Indiana income and were required to file a federal income tax return."

Taxpayers responded in writing later that month stating that they lived in Kuwait from 2003 until 2013 on an "overseas assignment" before returning to Indiana.

Taxpayers subsequently challenged the assessment on the ground that they were not full-year Indiana residents during 2011.

An administrative hearing was conducted by telephone during which Taxpayers' representatives explained the basis for the protest. This Letter of Findings results.

#### **I. Indiana Individual Income Tax - Residency.**

### **DISCUSSION**

The issue is whether Taxpayers have established that - for purposes of Indiana's individual income tax - they were not full-year residents of Indiana during 2011.

Taxpayers are current Indiana residents after having returned from Kuwait. However, Taxpayers argue that they were residents of Kuwait from 2003 through 2013, never resided in Indiana during that time, that their income was "totally foreign (Kuwait) sourced," did not hold an Indiana driver's license from . . . 1972 until 2015, and they never

voted in Indiana.

Tax assessments are prima facie evidence that the Department's claim for the unpaid tax is valid, and each taxpayer bears the burden of proving that any assessment is incorrect. IC § 6-8.1-5-1(c); *Indiana Dep't of State Revenue v. Rent-A-Center East, Inc.*, 963 N.E.2d 463, 466 (Ind. 2012); *Lafayette Square Amoco, Inc. v. Indiana Dep't of State Revenue*, 867 N.E.2d 289, 292 (Ind. Tax Ct. 2007). Thus, a taxpayer is required to provide documentation explaining and supporting his or her challenge that the Department's position is wrong. Poorly developed and non-cogent arguments are subject to waiver. *Scopelite v. Indiana Dep't of Local Gov't Fin.*, 939 N.E.2d 1138, 1145 (Ind. Tax Ct. 2010); *Wendt LLP v. Indiana Dep't of State Revenue*, 977 N.E.2d 480, 486 n.9 (Ind. Tax Ct. 2012). In reviewing a taxpayer's argument, the Indiana Supreme Court has held, that when it examines a statute that an agency is "charged with enforcing . . . we defer to the agency's reasonable interpretation of [the] statute even over an equally reasonable interpretation by another party." *Dept. of State Revenue v. Caterpillar, Inc.*, 15 N.E.3d 579, 583 (Ind. 2014).

Indiana imposes an income tax on "the adjusted gross income of every resident person . . . ." IC § 6-3-2-1(a). For income tax purposes, "The term 'resident' includes (a) any individual who was domiciled in this state during the taxable year, or (b) any individual who maintains a permanent place of residence in this state and spends more than one hundred eighty-three (183) days of the taxable year within this state . . . ." IC § 6-3-1-12.

To establish a domicile, a taxpayer "must be physically present at a place, and must have the simultaneous intent of establishing a home at that place." [45 IAC 3.1-1-22](#). For income tax purposes, "a person has only one domicile at a given time even though that person maintains more than one residence at that time." *Id.* Additionally, "Once a domicile has been established, it remains until the conditions necessary for a change of domicile occur." *Id.* "To effect a change of domicile, there must be an abandonment of the first domicile with an intention not to return to it, and there must be a new domicile acquired by residence elsewhere with an intention of residing there permanently, or at least indefinitely." *Croop v. Walton*, 157 N.E. 275, 278 (Ind. 1927).

In *State Election Board v. Bayh*, 521 N.E.2d 1313 (Ind. 1988), the Indiana Supreme Court considered the standard by which a "domicile" is established. The court determined that Mr. Bayh met the residency requirement for the office of Governor because Mr. Bayh's domicile remained in Indiana even though he moved to different states for various reasons for many years. Specifically, the court stated, in relevant part, that:

Once acquired, domicile is presumed to continue because "every man has a residence somewhere, and . . . he does not lose the one until he has gained one in another place." Establishing a new residence or domicile terminates the former domicile. A change of domicile requires an actual moving with an intent to go to a given place and remain there. "It must be an intention coupled with acts evidencing that intention to make the new domicile a home in fact . . . . [T]here must be the intention to abandon the old domicile; the intention to acquire a new one; and residence in the new place in order to accomplish a change of domicile." A person who leaves his place of residence temporarily, but with the intention of returning, has not lost his original residence. *Id.* 1317 (Internal citations omitted).

The Indiana Supreme Court concluded that:

Residency requires a definite intention and "evidence of acts undertaken in furtherance of the requisite intent, which makes the intent manifest and believable." A self-serving statement of intent is not sufficient to find that a new residence has been established. Intent and conduct must converge to establish a new domicile. *Id.* at 1318 (Internal citations omitted).

In an earlier case, the Indiana Supreme Court stated that in order to establish a new residence, a taxpayer "must show . . . evidence of acts undertaken in furtherance of the requisite intent, which make that intent manifest and believable." In the *Matter of Evrard*, 333 N.E.2d 765, 768 (Ind. 1975).

The Department's regulation provides that "[t]here is no one set of standards that will accurately indicate the person's intent in every relocation." [45 IAC 3.1-1-22](#). Instead, the determination is made on a case by case basis. *Id.* Facts to be considered include:

- (1) Purchasing or renting residential property
- (2) Registering to vote
- (3) Seeking elective office
- (4) Filing a resident state income tax return or complying with the homestead laws of a state
- (5) Receiving public assistance

- (6) Titling and registering a motor vehicle
- (7) Preparing a new last will and testament which includes the state of domicile. Id.

In addition, courts have considered a taxpayer's contemporaneous declarations identifying that taxpayer's "home;" insurance policies, mortgages, contracts or other instruments indicating the taxpayer's home; and membership in clubs, churches, or other social groups in a place. Croop, 157 N.E. at 278-79. Finally, courts have considered the location of taxpayer's household goods and mailing address. Board of Medical Registration and Examination v. Turner, 168 N.E.2d 193, 197 (Ind. 1960); See also, Culbertson v. Bd. Of Comm'rs of Floyd County, 52 Ind. 361 (1876). However, a taxpayer "seeking to establish his claim of exemption from taxation on the ground of nonresidence is not required to show that his property was assessed elsewhere." Croop, 157 N.E. at 276.

In order to change one's domicile from Indiana to an out-of-state location, the law requires the "intent of establishing a home at that place," [45 IAC 3.1-1-22](#), along with "acts evidencing [an] intention to make the new domicile a home in fact . . . ." Bayh, 521 N.E.2d at 1317.

However, the law also requires a simultaneous manifestation of an intent to abandon the Indiana domicile. Id. As the law states, "[A] person has only one domicile at a given time . . . ." [45 IAC 3.1-1-22](#). Significantly, Taxpayers own an Indiana home and benefited from a Homestead Credit claimed on that home. In doing so, Taxpayers necessarily verified that the Indiana home was their "principal place of residence" and, by doing so, took advantage of the typically significant tax advantage associated with claiming the credit. IC § 6-1.1-12-37(a)(2).

Taxpayers admit that they owned a home in Indiana and previously claimed a "Homestead Credit" on that home. IC § 6-1.1-12-37(f) in part requires:

If an individual who is receiving the deduction provided by this section or who otherwise qualifies property for a deduction under this section:

- (1) changes the use of the individual's property so that part or all of the property no longer qualifies for the deduction under this section; or
- (2) is no longer eligible for a deduction under this section on another parcel of property because:
  - (A) the individual would otherwise receive the benefit of more than one (1) deduction under this chapter; or
  - (B) the individual maintains the individual's principal place of residence with another individual who receives a deduction under this section; the individual must file a certified statement with the auditor of the county, notifying the auditor of the change of use, not more than sixty (60) days after the date of that change.

However, Taxpayers assert that their claim to the Homestead Credit was in error and that they "did not qualify for the Homestead deduction . . . ." Taxpayer argue that their claim to the credit was "a one-time property tax issue that has been blown entirely out of proportion." Taxpayers state that their agent "mistakenly ticked 2 boxes on the Indiana Sales Disclosure Form."

Inadvertently claimed or not, Taxpayers have done nothing to revoke the credit as required under IC § 6-1.1-12-37(f). As such, the Department must rely on their own "certified statement" that the Indiana home was their "principal place of residence." See IC § 6-1.1-12-37(e).

In addition, although Taxpayers spent and extended period of time living Kuwait, Indiana's residency law requires a manifest intention to effectively abandon their domicile in this state before establishing a domicile elsewhere. Specifically, [45 IAC 3.1-1-23](#)(3) provides in part as follows:

An individual from Indiana who is permitted to file Federal income tax returns as a nonresident citizen is considered as being domiciled in Indiana and his income taxable as a resident citizen, if he maintains a place of abode in Indiana immediately prior to residing in a foreign country as a nonresident citizen of the United States, and has not permanently established his domicile in a foreign country or in another state.

"A change of domicile requires an actual moving with an intent to go to a given place and remain there. It must be an intention coupled with acts evidencing that intention to make the new domicile a home in fact. . . . [T]here must be the intention to abandon the old domicile; the intention to acquire a new one; and residence in the new place in order to accomplish a change of domicile." Bayh, 521 N.E.2d at 1317. Additionally, "[a] person who leaves his place of residence temporarily, but with the intention of returning, has not lost his original residence." Id.

Thus, given the totality of the circumstances, the Department is unable to agree that Taxpayers effectively and

legally changed their domicile. Taxpayers were Indiana residents for the tax year 2011 because their domicile remained in Indiana while outside the country and because their claim to the Homestead Credit was indicative of their intention to return to their home state.

### **FINDING**

Taxpayers' protest is respectfully denied.

*Posted: 10/26/2016 by Legislative Services Agency*

An [html](#) version of this document.